DEPARTMENT OF TAXATION

ANNUAL REPORT 1985-1986

Hale Auhau — present headquarters of the Department of Taxation.

The Honorable George R. Ariyoshi
Governor
State of Hawaii

Herbert M. Dias
Director of Taxation
State of Hawaii

October 10, 1986

The Honorable George R. Ariyoshi
Governor, State of Hawaii
State Capitol
Honolulu, Hawaii 96813

Dear Governor Ariyoshi:

It is with pleasure that I submit to you this annual report which highlights the accomplishments of the Department of Taxation for the fiscal year ending June 30, 1986.

The top priority of the department for the last several years has been to convert from a manual to an automated income tax processing system. This goal became a reality when the new Comprehensive Net Income Tax (CNIT) System was implemented in January, 1986. Thanks to the dedicated personnel who contributed much effort and talent to its development, this new system will provide efficient information storage and retrieval for our employees and improve service to Hawaii's taxpayers.

Despite the demands required in the transition to the automated income tax system, the department still increased collections and continued to manage delinquent accounts.

Revenues collected by the department again reached an all-time high. Total collections for the fiscal year amounted to $1.57 billion which reflected an increase of 8.8% over the previous fiscal year. General fund revenue amounted to $1.41 billion, an increase of $114 million over the prior year.

My pride is in the performance of the employees of the department who gave of themselves day after day, week after week to meet and exceed our goals.

Very truly yours,

Herbert M. Dias

HERBERT M. DIAS
Director of Taxation

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THE YEAR IN REVIEW

ADMINISTRATION

In January, 1986, many months of meticulous planning and preparation came to fruition as the department implemented the Comprehensive Net Income Tax (CNIT) System. With this new automated system fully in place, the department will become more efficient in taxpayer compliance and enforcement activities as well as more responsive to taxpayer inquiries.

The Hawaii State Department of Taxation played host to colleagues from sister agencies throughout the western region at the thirty-fourth annual conference of the Western States Association of Tax Administrators (WSATA) at the Hilton Hawaiian Village Hotel in Honolulu in September, 1985. Director of Taxation Herbert Dias served as the 1985 President of the WSATA, which promotes exchange of ideas and expertise among taxation agencies in the western United States. Topics discussed included performance measurement, taxpayer services, administrative support, auditing, collection, and tax policy.

From 1983 to 1985, farmers in parts of the County of Hawaii suffered economic losses due to a prolonged drought. When such a natural disaster strikes, Chapter 234 of the Hawaii Revised Statutes provides procedures for furnishing tax relief to victims. Under these procedures, Governor Ariyoshi proclaimed parts of Hawaii County natural disaster areas and appointed a Natural Disaster Claims Commission in August, 1985, to certify the amount of losses suffered by each claimant. From a total of nearly $8.3 million in claims, the Commission certified losses totalling $6.3 million. After weighing the burdens of the afflicted farmers against those to be borne by the general taxpaying public, the department allowed the farmers a total of nearly $1.2 million in tax relief.

TAX SERVICES AND PROCESSING DIVISION

The objectives of the Tax Services and Processing Division are to efficiently process all tax documents, to maintain accurate tax accounting records, and to provide service to all taxpayers through correspondence, telephone or personal contact.

During the peak tax filing months of February through May, 1986, the Documents Processing Branch maintained two working shifts in its Receiving & Sorting and Data Preparation Sections. Of the more than 30,000 pounds of mail that arrived during that period, 95% was processed within two working days of receipt. The Monetary Control Section cashiered 411,777 documents totalling $633 million during that period.

By operating around the clock and by contracting temporary help services from February to June, 1986, the Data Entry Section was able to handle the additional keypunch requirements of the Comprehensive Net Income Tax (CNIT) System.

As part of its increased role in performing functions on a statewide basis, the Revenue Accounting Branch now processes all regular net income tax refunds, thereby reducing the waiting time for neighbor island refunds by an average of three to five working days. With the implementation of the CNIT system, the posting of delinquent net income tax accounts on a bookkeeping machine has been replaced by on-line entry of adjustments to taxpayers' accounts. During the filing season, January to June, 1986, approximately 35,000 such entries were made.

Because the newly implemented CNIT system requires that taxpayers use the proper state tax forms, the Taxpayers Services Branch mailed a total of 25,000 N-20, N-30, N-35, N-40 and N-70 filing forms to business taxpayers. To emphasize the new CNIT requirement, the department rejected approximately 700 inappropriate forms and returned them to the filers along with explanation letters and the correct filing forms. The necessity for this procedure should diminish as taxpayers become aware of the importance of submitting the proper state forms.

To accommodate the many questions taxpayers have concerning their refunds, a code-a-phone system specifically to receive refund inquiries was installed. During the period January 2 to June 30, the Taxpayer Services Branch responded to 4,421 calls by conducting research and mailing results to the taxpayer.

Twelve auditors from the Field Audit Section participated in the Taxpayer Assistance Program for 1986 by assisting taxpayers at the counter and providing information on the telephone. Each day during the tax season, two examiners from the Office Audit Section assisted the Taxpayer Services Branch by preparing tax returns for elderly and low-income taxpayers.

The Volunteer Income Tax Assistance (VITA) program, which now includes all branches of the Armed Forces, has been instrumental in clarifying the special problems and questions encountered by military personnel and their dependents in filing their nonresident or resident returns properly.

Educational programs in the community are gradually being expanded to include senior citizen groups, youth job programs, centers for handicapped persons, etc. This educational effort reduces taxpayer traffic into the office, makes the community aware of filing responsibilities, and informs taxpayers of tax credits and tax benefits for which they may qualify.

COMPLIANCE DIVISION

The primary objective of the Compliance Division is to maximize voluntary public compliance with Hawaii's tax laws. The two major programs of the division are: (1) an audit program to ensure accurate tax reporting, and (2) an enforcement program to identify and collect delinquent accounts.

Considerable staff time and talent was contributed by the Compliance Division towards the development and implementation of the CNIT system, which began operation on January 1, 1986. As with any transition to a major new data system, the start-up of CNIT created situations that needed to be resolved and required retraining of staff to convert to new procedures. Employees worked considerable overtime hours to overcome the major hurdles of the transition period. As knowledge of and familiarity with CNIT increases, the need for overtime will lessen.

Despite the demands of the transition to CNIT, the division was able to increase collections and manage delinquent accounts. Also, the division was once again able to temporarily assign audit staff to the Taxpayer Services Branch during the busy tax filing season to provide taxpayer assistance and information.

Under CNIT, the Compliance Division reviewed virtually all individual tax returns for accuracy of mathematical computations within a few months after they were filed. Since this procedure previously took an entire year, more time can be devoted to audit and collection efforts, which will enhance the division's major objective of obtaining public compliance with Hawaii's tax laws.

STAFF OFFICES

Administrative Services Office

In managing the budget for the first season of CNIT, the Administrative Services Office complied with all budget restrictions imposed by the 1984 Legislature. The office also gathered information needed for budget preparation for fiscal biennia 1987-88 and 1988-89. By July 1, 1986, the fiscal officer will have made preparations to be on-line to the Hawaii Financial Accounting and Management Information System (FAMIS).

Geographical distribution of the 327 positions authorized by the legislature for the fiscal year was as follows: Oahu 256, Hawaii 36, Maui/Molokai 21, and Kauai 14.

Personnel transactions within the department included 24 civil service new hires for permanent regular positions, 98 hires for temporary appointments and 15 retirements. Other transactions included promotions, transfers and reallocations totalling 48, 15 resignations, and 84 terminations involving temporary positions.

STAFFING PATTERN

(Number of Authorized Permanent Positions)

By Organizations/Operating Programs	1986	1985	1984
Headquarters Administration	40	40	36
Tax Services and Processing Division[1]	89	89	89
Compliance Division[2]	198	197	197
TOTAL	327	326	322

[1]Tax Services and Processing Division includes three branches (see organization chart).
[2]Compliance Division includes two branches (see organization chart).

NOTE: Above does not include: (a) temporary clerical support positions utilized during the peak periods and special projects, (b) temporary student positions during the summer.

Systems and Procedures Office

During the 1985-86 fiscal year, the Systems and Procedures Office assisted in the implementation of the CNIT system. Despite obstacles that needed to be overcome as CNIT began processing information, the computer programs have been maintained with the cooperation of nine programmers from the Electronic Data Processing Division (Department of Budget and Finance). Credit for the implementation of CNIT also goes to the Department of Taxation employees who served on the User and Technical Committees.

The acquisition of another data entry unit with 13 key stations brought the total number of data entry stations to 28. To process the information, this equipment was run 24 hours, seven days a week at the peak of the processing period.

With 87 video terminals and 5 printers now connected to the host computer, employees are able to process returns faster. Taxpayers benefit as they receive faster and more accurate responses regarding the status of their returns.

The department's Distributed Information Processing and Information Resource Management (DIPIRM) Plan was submitted to the Department of Budget and Finance on June 24, 1985. Funds received from the Governor's EDP Advisory Committee through the DIPIRM allowed the department to acquire 20 additional video terminals, bringing the total to 111.

Income Technical Office

During the 1986 legislative session, the Income Technical Office prepared public testimony on behalf of the department on 71 house bills, 84 senate bills, four house resolutions and four senate resolutions. In addition, this office also developed seven administration tax bills for introduction into the legislature and responded to 20 legislative requests for information.

In pursuit of its responsibility to communicate departmental positions on tax issues to tax practitioners and other concerned groups, the Income Technical Office issued four Tax Information Releases and three Department of Taxation Announcements. In response to specific requests, this office issued 550 letter rulings and 1,450 other pieces of correspondence.

Another responsibility of the Income Technical Office is the reviewing of applications by nonprofit organizations seeking exemption from the general excise tax. Of 101 new applications, 96 were authenticated and approved. From a total of 1,187 application renewals, 22 were cancelled.

The development and maintenance of a vigorous continuing professional education program for departmental employees is a major objective of the Income Technical Office. Three in-house training courses included sessions on Hawaii tax laws and current tax legislation. For the benefit of employees as well as other interested parties, this office annually publishes the "Tax Measures Digest," which covers the tax laws passed by the legislature during the year. Key personnel attended outside seminars and conferences dealing with aspects of taxation. The department played the host role when the Western States Association of Tax Administrators held its 1985 annual conference in Honolulu.

Staff from the Income Technical Office represented the department at more than 50 meetings with tax practitioners, the general public, governmental groups and various professional groups. Assistance and support was given to the establishment of the Hawaii Interactive Television System (HITS).

Having central responsibility over Hawaii state tax forms, the Income Technical Office revised 187 forms, introduced 20 new forms, and retired one form.

Tax Research and Planning Office

In March, 1986, the tenth study on tax credits was published. This report, which covered 1984 tax returns filed in 1985, includes pertinent data affecting the excise, renters', $1 general income, child care expense, solar energy device, heat pump, water heater insulation, and child passenger restraint system tax credits. Slightly more than $25 million in credits were claimed by resident taxpayers. Of this amount, excise tax credits amounted to $13.6 million and renters' credits $4.6 million.

The annual "Hawaii Income Patterns — Individuals" covering 1984 individual tax returns filed in 1985 was published in May, 1986. This report contains detailed data on income, adjustments, exemptions, deductions and tax liability reported by Hawaii taxpayers. Resident taxpayers reported tax liability after credits of $361.7 million, $25.1 million higher than the previous year. This relatively lower increase in taxes is a result of more income adjustments and itemized deductions claimed. Taxpayers reported larger tax and interest deductions and the IRA income adjustment remained high.

Once again, the Tax Research and Planning Office provided administrative and technical support to the Council on Revenues. For FY 1985-86, the Council estimated a growth rate of 6.2% applicable to the general fund tax revenues, exclusive of certain protested liquor taxes being transferred to a special escrow account. Actual collections amounted to $1,406.6 million, including a $22.1 million transfer from the special liquor tax escrow account. Without this transfer, general fund tax revenues increased 7.1%.

The Council predicted that the Hawaii total personal income would increase 6.3% in calendar year 1985. Preliminary data from the Bureau of Economic Analysis of the U.S. Department of Commerce reveals that the state total personal income data was 5.8% higher in 1985. In April, 1986, the data for calendar years 1982 through 1984 were revised.

For the 1986 legislative session, the Tax Research and Planning Office was kept unusually busy reviewing fewer, but more complex tax measures considered by the legislature. Much of the work of this office is in the area of determining the tax revenue impact of each proposal.

MANAGEMENT PERSONNEL

OFFICE OF THE DIRECTOR

Director of Taxation	Herbert Dias
Deputy Director of Taxation	Wallace Aoki

DIRECTOR'S OFFICE STAFF

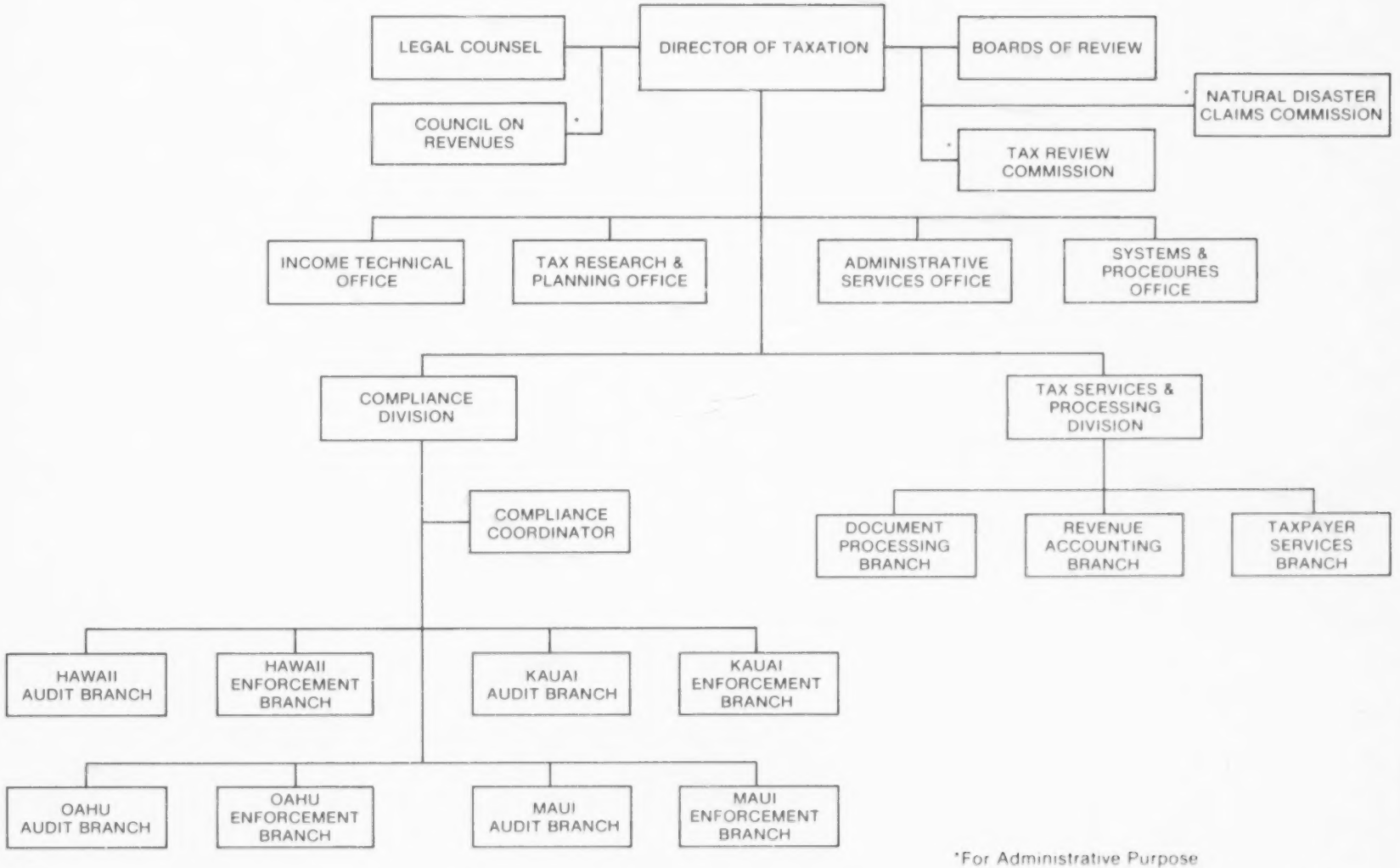
Income Technical Officer	Lawrence Nakano
Tax Research and Planning Officer	Robert Koike
Systems and Procedures Officer	Edwin Matsui
Administrative Services Officer	Warren Higashi

OPERATIONS STAFF

Compliance Division Chief	Kenneth Murayama
1st Taxation District Office (Oahu)	
Audit Branch	Susumu Oi
Enforcement Branch	Wayne Kinoshita
2nd Taxation District Office (Maui)	
Audit Branch	Janis Shinyama
Enforcement Branch	Stanley Ching
3rd Taxation District Office (Hawaii)	
Audit Branch	Ronald Yabe
Enforcement Branch	Wendell Serrao
4th Taxation District Office (Kauai)	
Audit Branch	Ernest Balderas
Enforcement Branch	Helen Teraoka
Tax Services & Processing Division Chief	Gilbert Chang
Taxpayer Services Branch	Vacant
Document Processing Branch	Richard Yokota
Revenue Accounting Branch	Marie Okamura

ORGANIZATION CHART

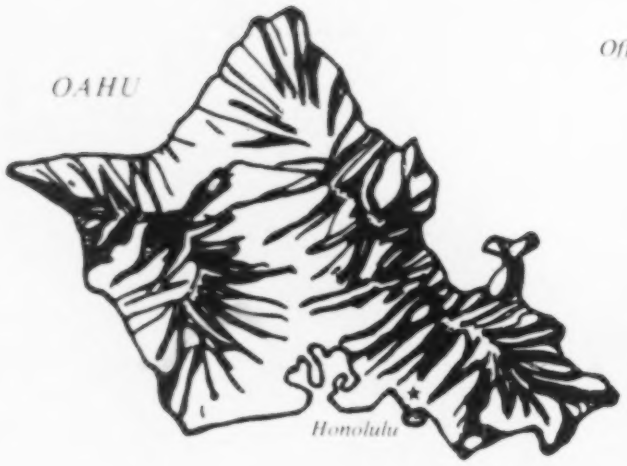
Department of Taxation
State of Hawaii



*For Administrative Purpose

FIRST TAXATION DISTRICT

Island of Oahu

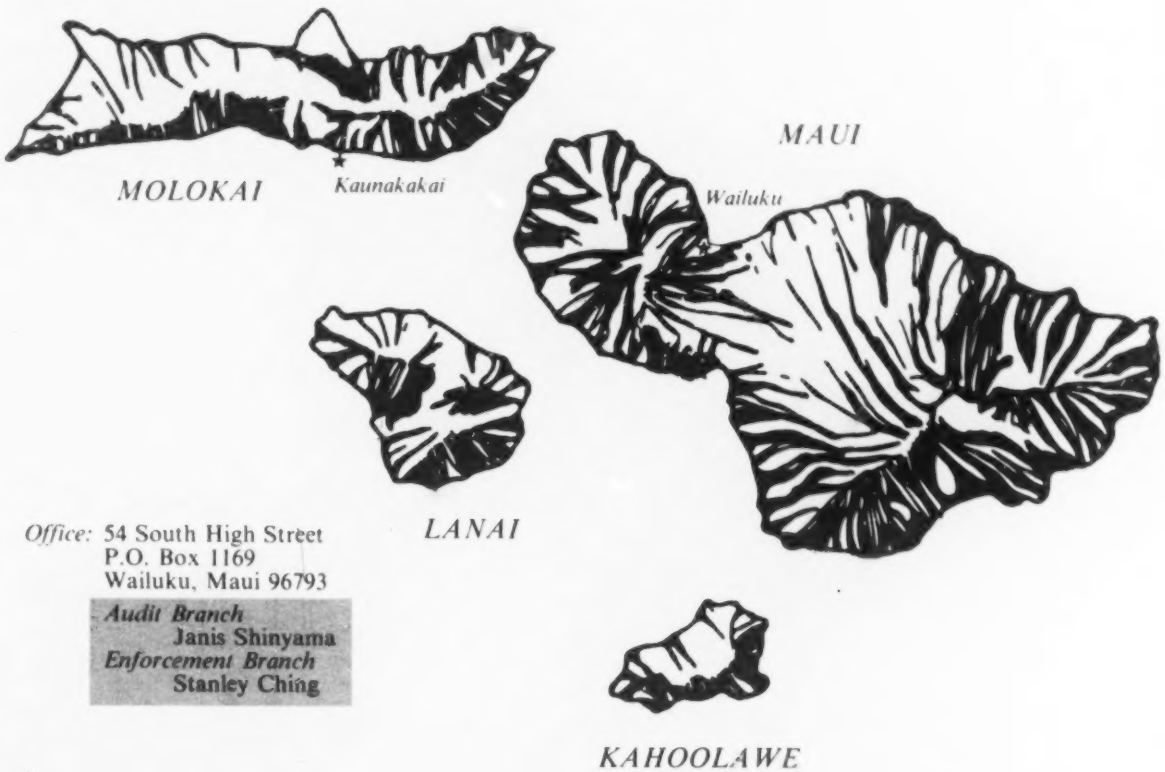


Office: 425 Queen Street
P.O. Box 259
Honolulu, Hawaii 96809

Compliance Division Chief
Kenneth Murayama
Audit Branch Chief
Susumu Oi
Enforcement Branch Chief
Wayne Kinoshita
Tax Services & Processing Division Chief
Gilbert Chang
Taxpayer Services Branch
Vacant
Document Processing Branch
Richard Yokota
Revenue Accounting Branch
Marie Okamura

SECOND TAXATION DISTRICT

Islands of Maui, Molokai, and Lanai



Office: 54 South High Street
P.O. Box 1169
Wailuku, Maui 96793

Audit Branch
Janis Shinyama
Enforcement Branch
Stanley Ching

THIRD TAXATION DISTRICT

Island of Hawaii

Office: 75 Aupuni Street
P.O. Box 1377
Hilo, Hawaii 96721

Audit Branch
Ronald Yabe
Enforcement Branch
Wendell Serrao

FOURTH TAXATION DISTRICT

Islands of Kauai and Niihau

Office: 3060 Eiwa Street
P.O. Box 1689
Lihue, Kauai 96766

Audit Branch
Ernest Balderas
Enforcement Branch
Helen Teraoka

TAX LITIGATION

BOARDS OF REVIEW

Consisting of five members in each district, the Boards of Review consider appeals made by taxpayers when the tax matter cannot be resolved with the district tax office. A district-by-district summary of the appeals before the Boards of Review during fiscal year 1985-86 is shown below:

	Oahu	Maui	Hawaii	Kauai
Appeals pending at year start	38	25	5	—
New Appeals filed	29	11	11	3
Appeals settled	11	16	6	3
Appeals withdrawn	2	—	—	—
Appeals pending at year end	54	20	10	—

COURT CASES AND LEGAL ACTIONS

During the fiscal year, the department's legal counsel closed 281 cases as follows:

Tax Appeals

State Supreme Court	4
Tax Appeal Court	12

Other Matters

Mortgage Foreclosures	189
Bankruptcy	51
Inheritance and Miscellaneous	25

Summarized below are the four cases heard by the Hawaii Supreme Court:

Tradewind Tours of Hawaii, Inc. *Decided on June 18, 1986*

The Taxpayer appealed the assessment of additional general excise taxes upon alternate grounds that the credits entered in its books for the performance of centralized management and administrative services constituted reimbursements and that it did not receive any income. The Court disposed of the appeal because it had already determined in the case of **In Re C. Brewer & Co., Ltd.**, 65 Haw. 240 (1982), that performance of such administrative and management services constitutes a business activity for purposes of our General Excise Tax Law. Since it is not necessary that cash be transferred between the entities and since the term "gross income" includes the value of services rendered, the Taxpayer did realize taxable gross income.

Bacchus Imports, Ltd. and Eagle Distributors, Inc. *Decided on October 4, 1985*

The Taxpayers, who are liquor distributors, argued that they were entitled to full refunds as a matter of law without the need for further fact finding. The Hawaii Supreme Court held that "the parties have neglected to provide this court with a factual basis for a decision on whether the Hawaii Liquor Tax had an adverse competitive impact," and therefore remanded the case to the Tax Appeal Court for fact finding.

Hawaiian Airlines, Inc. *Decided on March 24, 1986*

The Hawaii Supreme Court held that the three-year limitation period in HRS Section 235-111(a), rather than the five-year limit prescribed by HRS Section 231-23(b), is the correct period for filing amended public service company tax returns in order to claim refunds for taxes paid. The Court, however, construed HRS Section 235-111(a) to mean that the three-year limitation period for the filing of amended returns runs, not from the date the annual return is due, but rather "from the due date of any quarterly payment if the law allows a taxpayer to meet his obligation through such payments and he has elected to do so." This construction is at odds with the department's current position that the three-year limitation period runs from the date the annual return is due or is filed, whichever is later.

McDonald's Restaurants of Hawaii *Decided on May 15, 1986*

The issue in this case was whether or not the Taxpayer qualified for the intermediary service exemption under HRS Section 237-13(6). The Hawaii Supreme Court held by memorandum opinion that the Taxpayer did not qualify for the exemption because its parent company, McDonald's Corporation, was not engaged in the service business in Hawaii, and therefore could not act as an intermediary between the McDonald's restaurants and the Taxpayer.

LEGISLATION

In its continuing efforts to conform Hawaii's tax laws to the Internal Revenue Code, the 1986 State Legislature passed Act 283. With certain exceptions, this Act incorporates the Internal Revenue Code as of December 31, 1985.

Other tax bills enacted are summarized below:

Act

49 Income Tax Law: Provides a $1 general income tax credit to qualified resident taxpayers for the taxable year 1986.

54 Fuel Tax Law: Reduces the state fuel tax on diesel oil to a total of 11¢ per gallon to bring it to parity with the state gasoline tax; effective July 1, 1986.

66 Income Tax Law: Limits state alternate energy tax credit to 10% of cost if federal energy credits are enacted.

70 Income Tax Law: Provides tax credit for ice storage systems; effective for tax years beginning after December 31, 1985.

78 Income and General Excise Tax Laws: Provides an income tax credit of up to 80% and an exemption from the general excise tax to qualified businesses on proceeds from sales in state enterprise zones; effective April 22, 1986.

86 General Excise Tax Law: Exempts purchases made with food stamps from the general excise tax; effective October 1, 1986.

87 Administration of Taxes: Allows the state to retain state tax refunds from persons who have defaulted on education loans from the United Student Aid Funds.

105 Exempts improvement district assessment bonds of the Hawaii Community Development Authority from all state and county taxes, except estate and transfer taxes.

116 Public Service Company Tax Law: Allows a public service company tax credit equal to the costs incurred by telephone public utilities for providing lower lifeline telephone rates to qualified residential users; effective April 30, 1986.

146 Exempts bonds and related income of the Aloha Tower Development Corporation from all state and county taxes, except estate and transfer taxes.

231 Income Tax Law: Requires termination of an individual housing account of an account holder who marries a person with prior interest in residential real property but provides an exemption from the 10% penalty; retroactive to taxable years beginning after December 31, 1981.

270 Administration of Taxes: Appropriates funds to pay interest on overpayment of taxes by local air carriers.

306 General Excise Tax Law: Eliminates general excise tax on prescription drugs and prosthetic devices; effective July 1, 1986.

308 Public Service Company Tax Law: Provides that where gross income is divided between a travel agency or tour packager and a provider of tourism-related services who is a motor carrier regulated by the Public Utilities Commission, the tax imposed shall be in proportion to each entity's share of the proceeds; effective May 30, 1986.

324 General Excise Tax Law: Imposes a general excise tax on those engaged in providing interstate or foreign telecommunication services.

332 Administration of Taxes: Requires that the child support enforcement agency be notified of the address and social security number of child support debtors whose income tax refunds are retained.

339 Tax Appeals and Taxation of Banks and Other Financial Corporation: Makes various housekeeping changes and clarifications of language.

340 General Excise and Transient Accommodations Tax Laws: Allows a split of gross income and general excise taxes between a travel agency and a provider of tourism-related services; restores the law of reimbursements to its status prior to the enactment of Act 303 (1985 Legislature) retroactive to periods after June 30, 1985; eliminates general excise tax on dues received by unincorporated merchant associations if such dues are used for advertising and promotion benefiting all members effective June 30, 1986; and creates a new chapter imposing a 5% transient accommodations tax beginning January 1, 1987.

344 Liquor Tax Law: Changes the method of taxing liquor from a percentage of wholesale price to a gallonage rate beginning July 1, 1986.

COLLECTION AND ACCOUNTING OF TAXES

TAX COLLECTIONS

Net tax collections by the state amounted to $1,519.2 million. An additional $1.9 million of conveyance taxes collected by the Department of Land and Natural Resources, $34.6 million of insurance premium taxes collected by the Department of Commerce and Consumer Affairs, and $15.3 million of motor vehicle weight taxes collected by the counties boosted net total collections to $1,571.0 million, up 8.8% from FY 1985.

Of this $1,571.0 million collected, $1,406.6 or 89.5% went into the state general fund. The remainder was distributed to the state special fund ($140.9 million) and county fund ($23.5 million).

DISTRIBUTION OF COLLECTIONS
(In Thousands of Dollars)

	FY 1986		FY 1985	
	Amount Collected	% of Total	Amount Collected	% of Total
State General Fund	$1,406,592	89.5	$1,292,873	89.5
State Special Fund	140,907	9.0	128,461	8.9
County Funds	23,511	1.5	22,994	1.6
TOTAL	$1,571,010	100.0	$1,444,328	100.0

All four taxation districts recorded increases in tax collections. The following table presents a breakdown by counties:

TAX COLLECTIONS
(In Thousands of Dollars)

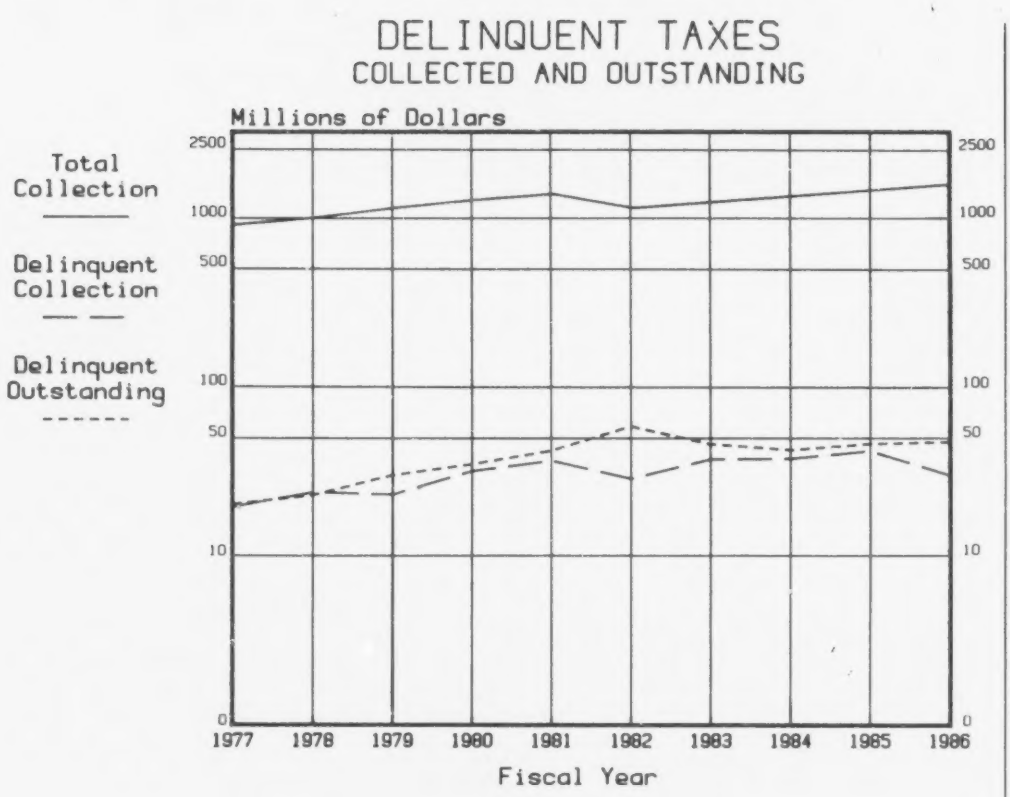
	FY 1986	FY 1985	Av. Annual Change (Percent) 1985-86	1981-86
OAHU				
Gross Collections*	$1,426,806	$1,325,898	7.6	3.2
Less Appeals, Payments Under Protest, Refunds, TDI	120,209	111,143	8.2	11.4
Net Collections by Department	$1,306,597	$1,214,755	7.6	3.0
MAUI				
Gross Collections*	$ 102,597	$ 92,205	11.3	5.4
Less Appeals, Payments Under Protest, Refunds, TDI	14,174	10,267	38.1	18.0
Net Collection by Department	$ 88,423	$ 81,938	7.9	6.2
HAWAII				
Gross Collections*	$ 96,741	$ 88,709	9.1	2.2
Less Appeals, Payments Under Protest, Refunds, TDI	13,527	10,651	27.0	12.1
Net Collection by Department	$ 83,214	$ 78,058	6.6	3.0
KAUAI				
Gross Collections*	$ 47,108	$ 34,378	37.0	6.2
Less Appeals, Payments Under Protest, Refunds, TDI	6,147	4,920	24.9	44.0
Net Collection by Department	$ 40,961	$ 29,458	39.0	7.8

**Excludes conveyance, insurance premiums, and motor vehicle weight taxes.*

DELINQUENT TAXES

At the beginning of the fiscal year, 20,733 delinquent accounts were carried over. An additional 35,055 new referrals brought the total number of delinquent accounts to 55,788 for the fiscal year. Of this total, 35,093 accounts were closed, leaving a balance of 20,695 delinquent accounts pending for FY 1987.

The 35,093 closed accounts generated $30.1 million, a 22.5% drop from the previous year. Included in this figure are write-offs of $2.3 million on uncollectible accounts. The average net collection per account fell from $1,057 to $859.



INCOME ASSESSMENT AND AUDIT

INDIVIDUAL INCOME TAX

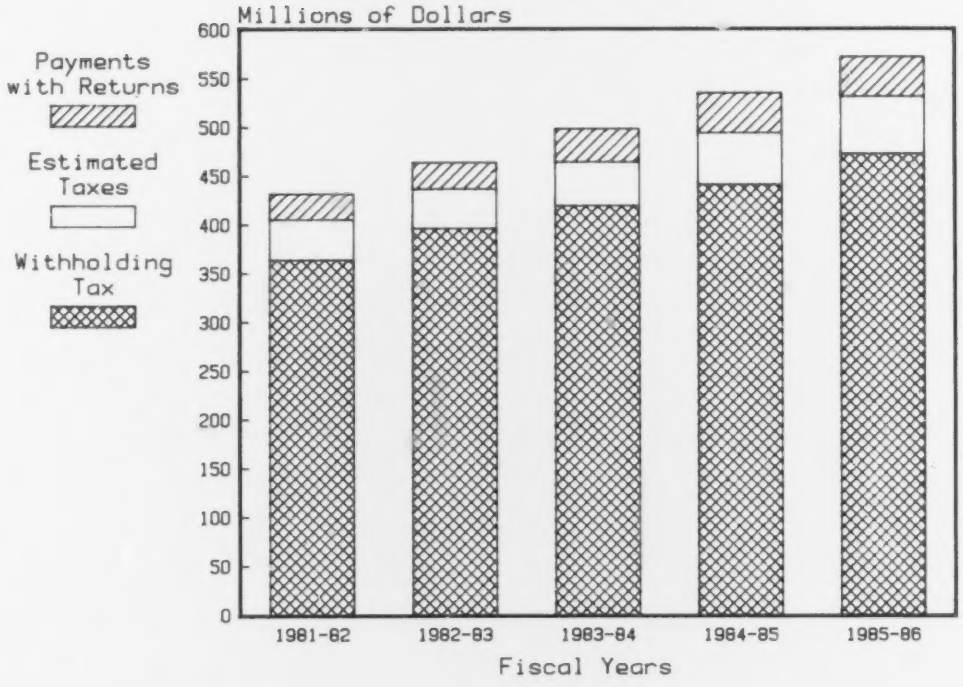
Taxes paid by individuals in FY 1986 advanced 6.9% to $572.1 million before refunds. Refunds paid out totalled $104.9 million, approximately $1.0 million less than the past fiscal year. This 3.3% drop in refunds netted an 8.8% increase in individual income taxes.

As a constantly increasing component, withholding tax on wages, which makes up over 80% of individual income tax collections, is responsible for the continuous growth of gross individual income tax collections before refunds. This year's withholding tax on wages increased 7.2%. For three consecutive years, declaration of estimated taxes sustained double-digit increases of 35.0% in FY 1984, 17.9% in FY 1985, and 11.0% in FY 1986. Following a 26.9% surge in FY 1984 and 20.4% in FY 1985, payment with returns dropped 1.1% this year.

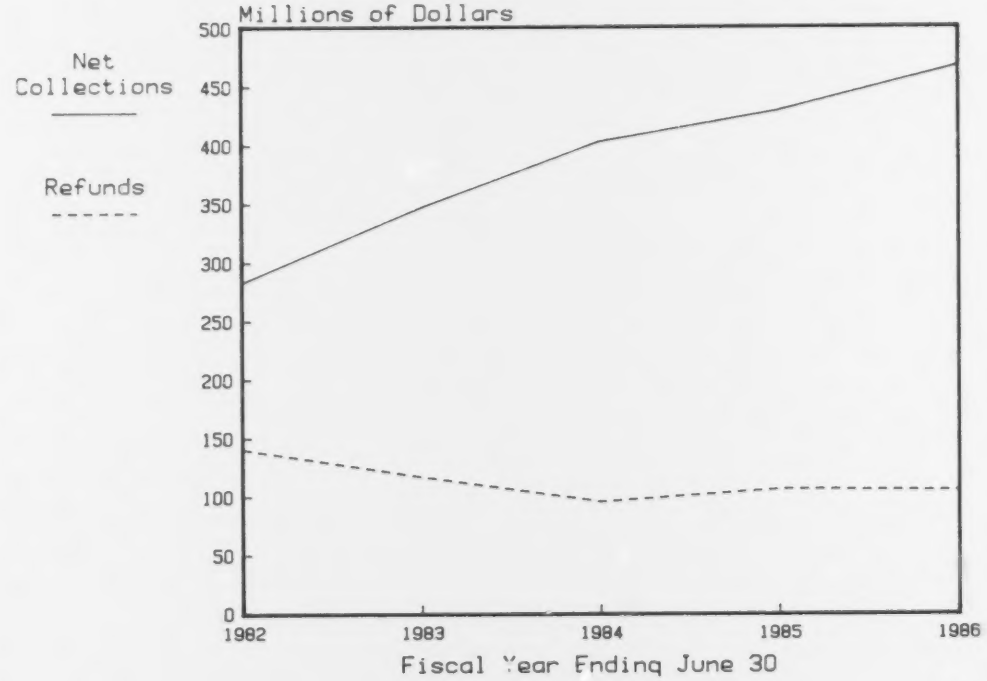
TAXES PAID BY INDIVIDUALS
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1986	FY 1985	1985-1986	1981-86
Declaration of Estimated Taxes	$ 58,842	$ 52,992	11.0	7.9
Payment with Return	40,613	41,085	- 1.1	5.3
Withholding Tax on Wages	472,692	441,148	7.2	6.9
Subtotal	$572,147	$535,225	6.9	6.7
Refunds	104,941	105,970	- 1.0	13.9
NET	$467,206	$429,255	8.8	7.7

INDIVIDUAL INCOME TAXES
GROSS COLLECTIONS BEFORE REFUNDS



INDIVIDUAL INCOME TAXES
REFUNDS AND NET COLLECTIONS



A total of 357,491 refunds were processed averaging $292 per return, up $5 from the prior year.

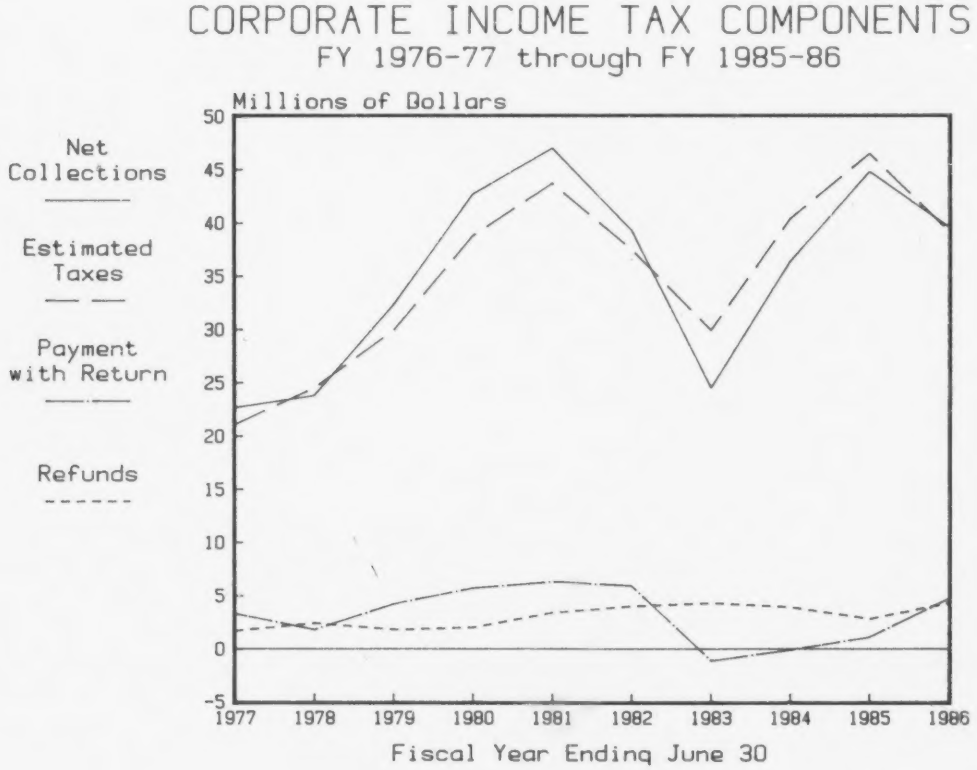
CORPORATE INCOME TAX

Corporations paid $43.9 million in taxes, 7.9% less than the last fiscal year. After refunds, the net amount dropped further to 11.7% or $39.6 million. Estimated taxes, which made up 89.1% of taxes collected, declined 15.9% or $7.4 million, while payments with returns increased 319.3% but accounted for only 10.9% of total revenues.

TAXES PAID BY CORPORATIONS
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1986	FY 1985	1985-86	1981-86
Declaration of Estimated Taxes	$39,163	$46,547	- 15.9	0.0
Payment with Return	4,772	1,138	319.3	57.5
Subtotal	$43,935	$47,685	- 7.9	0.7
Refunds	4,346	2,849	52.5	11.1
NET	$39,589	$44,836	- 11.7	1.2

Refunds advanced 52.5% from $2.8 million in FY 1985 to $4.3 million, which brought net collections even lower.



GENERAL EXCISE AND USE TAXES

General excise and use taxes accounted for 47.5% of total state tax collections, a slight increase over the previous year. Revenue sources with a four percent tax rate increased 10.0% while sources taxed at ½% or less declined 3.6%. Total revenue from all sources grew 9.2%.

GENERAL EXCISE AND USE TAX BASE AND TAXES FOR THE FISCAL YEARS ENDING JUNE 30, 1986 & 1985
(In Thousands of Dollars)

SOURCE OF REVENUE	Rate	1986	1985	% Change
TAX BASE				
Retailing		$ 8,955,814	$ 8,280,481	8.2
Services		2,606,779	2,427,955	7.4
Contracting		1,660,533	1,138,533	45.8
Hotel Rentals		1,136,012	1,098,430	3.4
All Other Rentals		2,000,822	1,834,320	9.1
All Others (4%)		1,380,434	1,349,865	2.3
Subtotal		$17,740,394	$16,129,584	10.0
Sugar Processing		$ 365,751	$ 376,495	- 2.9
Pineapple Canning		71,014	184,495	-61.5
Producing		244,405	266,614	- 8.3
Manufacturing		554,124	500,691	10.7
Wholesaling		4,219,580	4,052,693	4.1
Use (½%)		1,802,331	2,131,769	-15.5
Intermediary Services		119,232	113,511	5.0
Insurance Commissions		132,618	210,464	-37.0
Subtotal		$ 7,509,055	$ 7,836,732	- 4.2
TOTAL-ALL ACTIVITIES		$25,249,449	$23,966,316	5.4
TAX				
Retailing	4%	$ 358,232	$ 331,219	8.2
Services	4%	104,271	97,118	7.4
Contracting	4%	66,421	45,541	45.8
Hotel Rentals	4%	45,440	43,937	3.4
All Other Rentals	4%	80,033	73,373	9.1
All Others	4%	55,218	53,995	2.3
Subtotal		$ 709,615	$ 645,183	10.0
Sugar Processing	.50%	$ 1,829	$ 1,882	- 2.8
Pineapple Canning	.50%	355	923	-61.5
Producing	.50%	1,222	1,333	- 8.3
Manufacturing	.50%	2,771	2,503	10.7
Wholesaling	.50%	21,098	20,263	4.1
Use	.50%	9,012	10,659	-15.5
Intermediary Services	.50%	596	568	4.9
Insurance Commissions	.15%	199	316	-37.0
Subtotal		$ 37,082	$ 38,447	- 3.6
TOTAL-ALL ACTIVITIES		$ 746,697	$ 683,630	9.2

After experiencing a general decline from FY 1981 to FY 1985, revenue from contracting increased 45.8% in FY 1986. However, if combined with the decreases of the previous five years, the average increase amounts to only 3.1% per year.

Sugar processing and pineapple canning declined 2.8% and 61.5%, respectively. Behind the large drop in tax revenue from pineapple canning is the exemption from the general excise tax that a number of major canneries received when they were granted foreign trade zone status. Other activities with lower revenues in FY 1986 include producing, use, and insurance commissions.

INHERITANCE AND ESTATE TAX

The 1983 Legislature repealed the Inheritance and Estate Taxes Law and enacted the Estate and Transfer Tax Law. Under the previous law, the inheritance tax and/or estate tax was imposed on the decedent's property or estate.

For those decedents who died after June 30, 1983, the inheritance tax was eliminated and the estate was subject to an estate tax equal to the federal state death tax credit. The exemption amount was also increased, thus lowering the number of taxable estates.

INHERITANCE AND ESTATE TAXES
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1986	FY 1985	1985-86	1981-86
Inheritance Tax	$3,919	$ 9,746	-59.8	6.8
Estate Tax	1,967	2,422	-18.8	174.6
Subtotal	$5,886	$12,168	-51.6	14.7
Penalty & Interest	85	92	- 7.6	27.6
TOTAL	$5,971	$12,260	-51.3	14.7

As can be expected by the change, inheritance tax revenues fell 59.8% and estate tax, 18.8%. The total collected was $6.0 million, almost half of the preceding year.

Of the 4,308 estates settled, 377 were taxable.

PUBLIC SERVICE COMPANY TAXES

Public service companies paid a total of $70.3 million in taxes, 12.8% or $8.0 million more than the previous year. While total revenues climbed 2.6% and 12.8% in the past two years, public utilities revenues fell 14.4% and 13.8% to $43.0 million in fiscal 1986.

PUBLIC SERVICE COMPANY TAXES
(In Thousands of Dollars)

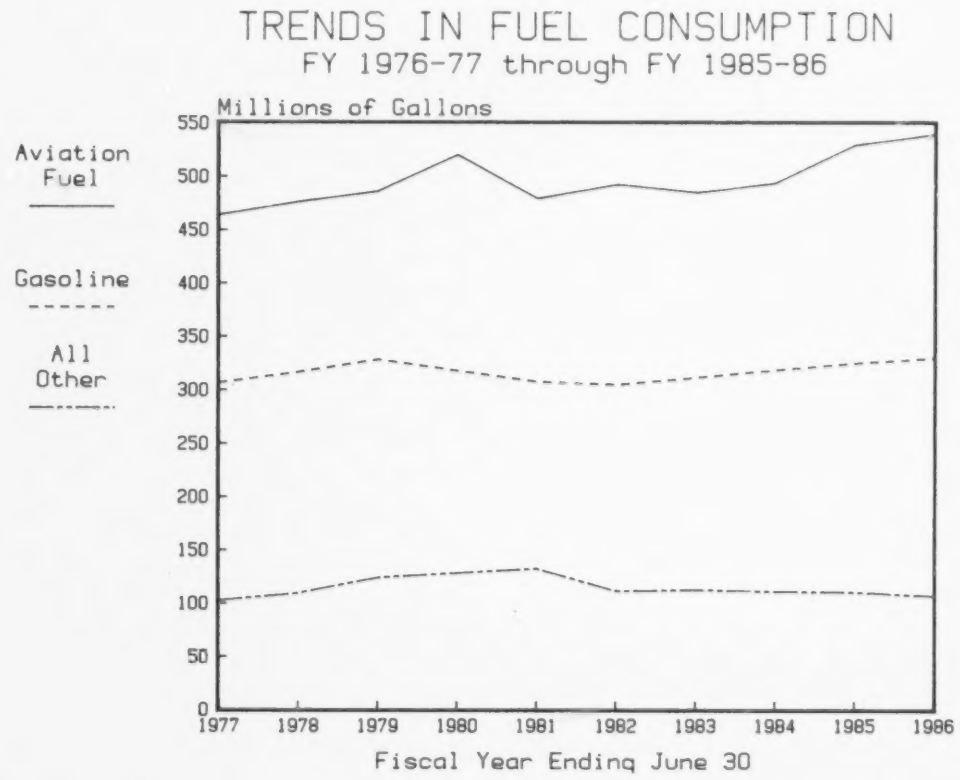
			Av. Annual Change (Percent)	
	FY 1986	FY 1985	1985-86	1981-86
Public Service Company Taxes	$70,109	$62,099	12.9	8.9
Penalty & Interest	156	206	-24.3	12.1
TOTAL	$70,265	$62,305	12.8	7.4

FUEL TAXES

Since 1982 gasoline consumption steadily climbed an average 1.8% each year. In fiscal 1986, consumption increased 1.5% to 329.9 million gallons. Aviation fuel consumption rose 1.9% to 539.6 million gallons. Total fuel consumption amounted to 976.0 million gallons, up 1.2% from the previous year.

GALLONS OF FUEL CONSUMED
(In Thousands of Gallons)

			Av. Annual Change (Percent)	
	FY 1986	FY 1985	1985-86	1981-86
Gasoline	329,944	325,186	1.5	1.2
Diesel Oil — Nonhighway	83,770	87,867	- 4.7	- 4.9
Diesel Oil — Highway	18,091	18,003	0.5	4.5
Liq. Pet. Gas — Off Highway	2,635	2,795	- 5.7	1.4
Liq. Pet. Gas — Highway	976	964	1.2	- 3.7
Small Boats — Gasoline	166	156	6.4	-14.3
Small Boats — Diesel Oil	801	335	139.0	6.1
Aviation Fuel	539,645	529,570	1.9	2.4
TOTAL	976,028	964,876	1.2	1.2



Effective July 1, 1985, Act 239 increased the tax rate on liquid fuel (except for diesel oil and aviation fuel) from 8½¢ to 11¢ per gallon. Diesel oil jumped from 7½¢ to 12¢ per gallon. Effective October 1, 1985, the motor vehicle annual registration fee was raised from $1 to $10 and the vehicle weight tax rate was increased according to weight from a maximum of $36 to $65.

As a result of the increase in fuel consumption and tax rates, fuel taxes accruing to the state highway fund advanced 27.9%. An additional $15.3 million from motor vehicle weight tax and registration fees brought the total to $53.3 million, for a total 35.6% increase.

The county highway fund received $23.5 million, while the boating special fund and the state airport fund were issued $621 thousand and $5.4 million, respectively.

ALLOCATION OF FUEL TAXES
(In Thousands of Dollars)

	FY 1986	FY 1985	Difference
STATE HIGHWAY FUND:			
Gasoline	$35,024	$27,272	$ 7,752
Diesel Oil — Nonhighway	837	873	- 36
Diesel Oil — Highway	2,069	1,515	554
Liq. Pet. Gas — Off Highway	26	28	- 2
Liq. Pet. Gas — Highway	75	57	18
Subtotal	$38,031	$29,745	$ 8,286
Motor Vehicle Weight Tax/Reg. Fees	15,258	9,553	5,705
TOTAL	$53,289	$39,298	$13,991
COUNTY HIGHWAY FUNDS:			
City & County of Honolulu	$18,177	$17,941	$ 236
County of Maui	2,297	2,159	138
County of Hawaii	2,265	2,167	98
County of Kauai	747	677	70
TOTAL	$23,486	$22,944	$ 542
BOATING SPECIAL FUND	$ 621	$ 532	$ 89
STATE AIRPORT FUND:			
Aviation Fuel	$ 5,396	$ 5,296	$ 100

OTHER TAXES

Miscellaneous taxes include collections from all other sources not previously mentioned. Tax revenue from miscellaneous taxes rose 10.1% to $158.4 million.

MISCELLANEOUS TAXES
(In Thousands of Dollars)

	FY 1986	FY 1985	Av. Annual Change (Percent) 1985-86	1981-86
Banks & Other Financial Corp	$ 4,934	$ 3,881	27.1	88.2
Conveyance	1,947	1,861	4.6	0.9
Empl. Security Contributions	66,951	68,701	- 2.5	3.1
Insurance Premiums	34,609	28,705	20.6	8.0
Liquor & Permits	29,852	20,635	44.7	15.2
Tobacco & Licenses	19,740	19,717	0.1	7.9
General Excise Licenses & Fees	406	398	2.0	1.9
TOTAL	$158,439	$143,898	10.1	7.2

Employment security contributions, collected for the Department of Labor and Industrial Relations, dropped 2.5% to $67.0 million. Liquor and permits surged 44.7% to $29.9 million. Due to partial settlement, a portion of funds held in escrow was released to the state general fund. Revenue from banks/financial corporations and insurance premiums showed significant increases of 27.1% and 20.6%, respectively.

BRIEF SUMMARY OF HAWAII'S TAX SYSTEM

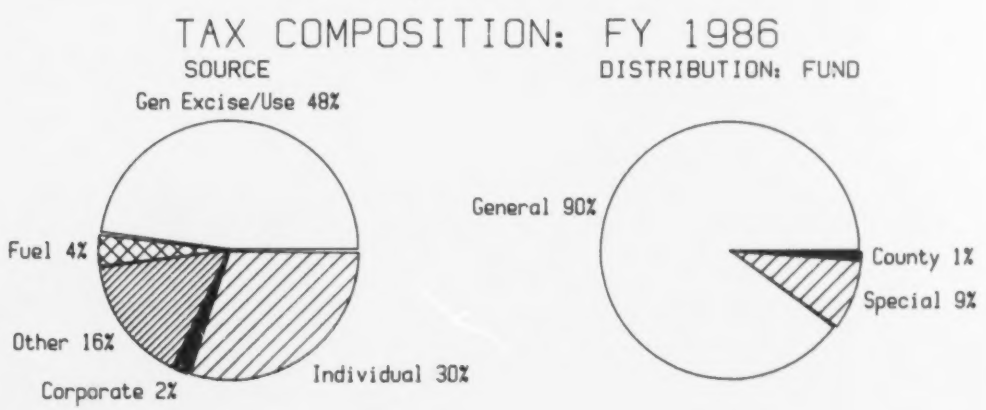
The high degree of centralization in Hawaii's tax structure enables the state government to utilize revenue sources in an effective manner. The general excise tax continues to be the major source of the state's general fund tax revenue, followed by the progressive individual income tax.

An outstanding characteristic of the state's tax structure is its use of income tax credits. These credits were designed to: (a) provide relief to low-income taxpayers; (b) promote energy conservation; and (c) encourage public safety. Over the years, changes were made to simplify both the filing process and the administration of some of these tax credits.

Two tax credits which can only be claimed by resident taxpayers with adjusted gross incomes under $20,000 are the excise tax credit and the low-income renter's tax credit. Whereas the renter's credit is a flat credit based on the number of qualified exemptions, the excise tax credit is inversely graduated against adjusted gross income. The child care, energy, and child passenger restraint tax credits are available to qualified taxpayers of all income levels. However, beginning with the 1982 taxable year, the amount of child care tax credit, formerly 10% of expenses, became graduated against adjusted gross income (AGI), ranging from 15% of expenses for those with an AGI up to $10,000 to 10% of expenses for those with an AGI above $18,000. Except for the child passenger restraint tax credit, all the other credits are available to resident taxpayers only.

For the taxable year 1985, Act 81 of the 1985 Legislature gave a one-time $1 general income tax credit to all residents of the State of Hawaii. This law was enacted to implement Article VII, Section 6, of the state constitution, which mandates the legislature to provide for a tax refund or credit whenever general fund year-end balances exceed five percent of general fund revenues for two successive fiscal years.

Hawaii has fifteen separate tax laws of which twelve are administered by the state. The remaining three — the motor vehicle weight tax, the public utility franchise tax, and the real property tax — are administered by the counties. Until July 1, 1981, the real property tax law was administered by the state, with the revenue from this source accruing to the counties. At present, the counties administer all of the real property functions. The counties also administer the state and county motor vehicle weight taxes, revenues from which accrue to the state and county highway funds. Revenues from ten of the state-administered taxes go into the state's general fund and are used to provide the various services of the state government, including the health, education, and social services systems which are state functions in Hawaii. Although the fuel tax is administered by the state, it is a source of revenue for both state and county governments. The employment security tax is a dedicated tax, used exclusively to provide benefits to unemployed workers.



STATE GENERAL FUND

GENERAL EXCISE TAX: The general excise tax is a tax on the privilege of doing business in the state as measured by the gross proceeds of business transactions. Hawaii is one of the few states having a gross receipts tax. This tax applies, with few exceptions, to all levels of business activities, including not only the consumer level, but also the producing, manufacturing, and wholesaling activities. The significant difference between Hawaii's general excise tax as compared to a sales tax is that the incidence of the tax is on the seller rather than on the purchaser. This tax applies to receipts from the sale of tangible personal property, services performed, and income from the investment of business capital, in such forms as interest, rentals, royalties, fees, etc.

The consumer level rate is 4% with the rate on producing, manufacturing, and wholesaling at ½ of 1%. Insurance solicitors and agents have a preferential rate of .15%.

USE TAX: Under the use tax law, an excise tax is levied on the import or purchase of tangible personal property from an unlicensed seller for use or for resale at retail in the state. If the import is for resale, it carries the wholesaling rate of ½ of 1%; otherwise the rate is 4%, the same as for retailing.

INCOME TAXES: The Income Tax Law of 1957 adopted, with certain exceptions, the provisions of the Internal Revenue Code in the determination of gross income, adjusted gross income, and taxable income. Some of the significant exceptions applicable under Hawaii's law are: 1) taxation of cost-of-living allowances received by federal employees in Hawaii; 2) exclusion of pension income; 3) allowance of $7,000 personal exemption for persons who are blind, deaf, or totally disabled; and 4) a deduction, up to $5,000 a year, for an individual housing account.

ESTATE AND TRANSFER TAX: Act 217 of the 1983 Legislature repealed the Inheritance and Estate Tax and established in its place the Estate and Transfer Tax for persons dying after June 30, 1983. The amount of tax is equal to the federal credit for state death taxes on estates subject to the federal estate tax.

LIQUOR AND TOBACCO TAXES: These are excise taxes on the wholesale value of liquor and tobacco products. This is quite different from the usual practice on the mainland where liquor is taxed on a gallonage basis, with rates depending on the alcoholic content; and where cigarettes are taxed on the basis of the number in the pack. Hawaii taxes all tobacco products at a rate of 40% of the wholesale value, and liquor at 20% of the wholesale value.

PUBLIC SERVICE COMPANY TAX: This is a tax on public utility business in lieu of general excise and real property taxes. Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers is taxed at 5.35%. The rate on all other public utility gross income is based on the ratio of net to gross income. If this ratio is 15% or less, the rate is 5.885%, increasing by .2675% for each 1% increase in ratio of net to gross. The rate for motor carrier and contract carrier business is 4% of gross income.

BANKS AND OTHER FINANCIAL INSTITUTIONS: A franchise tax in lieu of all other taxes, except real property, is imposed on both national and state banks, building and loan companies, industrial loan companies, and small business investment companies. The tax rate is 11.7% of taxable income measured by net income for the preceding year.

INSURANCE PREMIUM TAX: This is a tax on insurance companies based on premiums received in Hawaii and is in lieu of all taxes, except real property and taxes on the purchase, use or ownership of tangible personal property. This law is administered and the tax collected by the Insurance Commissioner, who is required to report to the Director of Taxation all amounts of taxes collected. The rates are: life insurance — domestic, 1.918% and foreign, 3.197%; surplus lines, 4.68%; ocean marine, .8775%; and other insurance — domestic, 2.9647% and foreign 4.2824%. These rates are applicable to all premiums and gross underwriting profits received during the calendar year (1979 and thereafter).

CONVEYANCE TAX: This tax is imposed, with certain exceptions, on all deeds, leases, subleases, assignments of lease, agreements of sale, instruments, writings, or other documents transferring ownership or interest in any land, tenement or other realty. The rate of tax is 5¢ on each $100 of actual and full consideration paid with a minimum tax of one dollar on each taxable transaction. The purpose of this law is to acquire selling price data to determine market value which is needed to achieve uniformity in real property tax assessment.

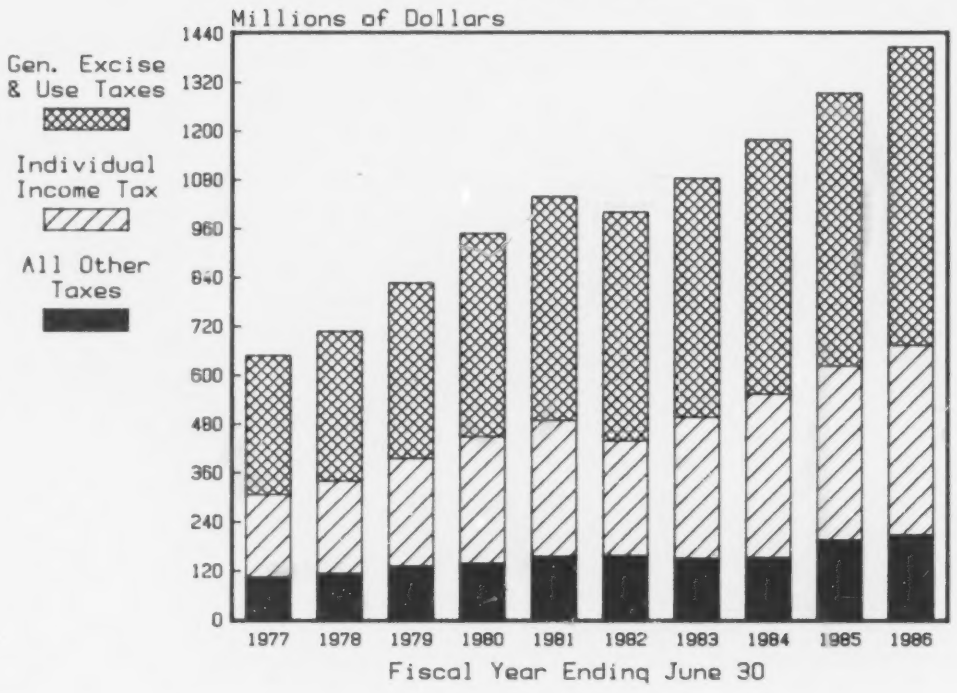
SPECIAL PURPOSE TAXES

FUEL TAXES: The fuel tax is administered and collected by the state, but it is a source of revenue for both state and county governments. The county tax rates on each gallon of gasoline and diesel oil used on the highways are set by the council of each county. State fuel tax rates are established by the state legislature. Revenue from this source goes into state and county special funds for use in the construction and maintenance of highways, roads, airports, and boating programs.

The county tax rates on gasoline and diesel oil used on the highways which were in effect for this fiscal year are: 7½¢ for the City and County of Honolulu, 6¢ for the County of Maui, 5¢ for the County of Hawaii, and 4¢ for the County of Kauai. The state rate is 11¢ for all gasoline, 12¢ for diesel oil used on the highways, and 1¢ for gasoline, diesel and liquefied petroleum gas used off highways. The aviation fuel tax rate is 1¢ per gallon. To encourage the use of liquefied petroleum gas for antipollution purposes, the fuel tax on liquefied petroleum gas used on the public highways was reduced to two-thirds of the rates applicable to diesel oil used on the highways for both state and county purposes.

HAWAII EMPLOYMENT SECURITY TAX: The proceeds from this tax go into the unemployment insurance trust fund for the payment of benefits to unemployed workers while they are seeking new jobs. This is a tax on employers and is measured by wages and salaries paid. It is a variable tax rate of up to 5.4% and is based on the employer's past employment record. This law is administered by the Department of Labor and Industrial Relations, but the tax is payable to the Director of Taxation.

TRENDS IN GENERAL FUND REVENUE
BY SOURCE



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TAX COLLECTIONS

SOURCE OF REVENUE	FY 1986 Amount Collected	FY 1986 % of Total	FY 1985 Amount Collected	FY 1985 % of Total
Banks — Financial Corps.	$ 4,934,437	.31	$ 3,880,666	.27
Conveyance	1,947,474	.13	1,860,652	.12
Employment Security Contributions	66,951,310	4.26	68,701,454	4.76
Fuel	67,535,236	4.30	58,517,137	4.05
General Excise & Use	746,696,758	47.53	683,630,344	47.33
Income — Corporations	39,588,870	2.52	44,836,680	3.11
Income — Individuals	467,206,178	29.74	429,255,561	29.72
Inheritance & Estate	5,971,395	.38	12,260,322	.85
Insurance Premiums	34,609,170	2.20	28,705,247	1.99
Liquor & Permits	29,851,839	1.90	20,634,963	1.43
Motor Vehicle Weight/Registration Fees	15,257,739	.97	9,553,089	.66
Public Service Companies	70,264,948	4.47	62,305,034	4.31
Real Property	24,744	—	50,169	—
Tobacco & Licenses	19,740,731	1.26	19,716,689	1.37
All Others	429,631	.03	420,199	.03
TOTAL	$1,571,010,460	100.00	$1,444,328,206	100.00

DISTRIBUTION OF COLLECTIONS

STATE FUNDS:				
State General	$1,406,592,428	89.53	$1,292,873,107	89.51
State Highway	53,288,566	3.39	39,298,328	2.72
State Highway (Act 239, S.L.H. 1985)	14,224,679	.91	14,099,729	.97
State Airport	5,396,452	.34	5,295,702	.37
Boating Special Fund	621,388	.04	532,214	.04
Unemployment Trust	66,951,310	4.26	68,701,454	4.76
Election Campaign Fund	424,324	.03	533,520	.04
Subtotal — State	$1,547,499,147	98.50	$1,421,334,054	98.41
COUNTY REVENUES:				
Property	$ 24,744	—	$ 50,170	—
Fuel	23,486,569	1.50	22,943,982	1.59
Subtotal — Counties	$ 23,511,313	1.50	$ 22,994,152	1.59
TOTAL	$1,571,010,460	100.00	$1,444,328,206	100.00

STATE GENERAL FUND

SOURCE OF REVENUE	FY 1986 Amount Collected	FY 1986 % of Total	FY 1985 Amount Collected	FY 1985 % of Total
Banks — Financial Corps.	$ 4,934,437	.35	$ 3,880,666	.30
Conveyance	1,947,474	.14	1,860,652	.14
General Excise & Use	732,472,079	52.07	669,530,615	51.79
Income — Corporations	39,588,870	2.82	44,836,680	3.47
Income — Individuals	466,781,854	33.19	428,722,041	33.16
Inheritance & Estate	5,971,395	.42	12,260,322	.95
Insurance Premiums	34,609,170	2.46	28,705,247	2.22
Liquor & Licenses	29,851,839	2.12	20,634,963	1.60
Public Service Companies	70,264,948	5.00	62,305,034	4.82
Tobacco & Licenses	19,740,731	1.40	19,716,689	1.52
All Others	429,631	.03	420,198	.03
TOTAL	$1,406,592,428	100.00	$1,292,873,107	100.00

FUEL TAX RATES PER GALLON[1]

	State	County	Total
GASOLINE:			
City & County of Honolulu	11¢	7½¢	18½¢
County of Maui	11¢	6 ¢	17 ¢
County of Hawaii	11¢	5 ¢	16 ¢
County of Kauai	11¢	4 ¢	15 ¢
DIESEL OIL (HWY. USE):			
City & County of Honolulu	12¢	7½¢	19½¢
County of Maui	12¢	6 ¢	18 ¢
County of Hawaii	12¢	5 ¢	17 ¢
County of Kauai	12¢	4 ¢	16 ¢
LIQUID PETROLEUM GAS (HWY. USE):			
City & County of Honolulu	8¢	5 ¢	13 ¢
County of Maui	8¢	4 ¢	12 ¢
County of Hawaii	8¢	3 ¢	11 ¢
County of Kauai	8¢	3 ¢	11 ¢

[1]Gasoline used for agricultural equipment off highways, aviation fuel, and all other fuels used off highways are taxed at one cent per gallon.

DEPARTMENT OF TAXATION

TRAINING PROGRAMS FOR FISCAL YEAR ENDING 6/30/86

Training Course	No. of Employees	Hours of Training
1. 17th Annual Board of Review Conference	9	180
2. EEO is the Law Seminar	1	16
3. Western States Association of Tax Administrators Annual Conference	13	312
4. Effective Letterwriting	3	48
5. 1985 Hawaii Tax Institute	8	320
6. 1985 Clerical Seminar	35	280
7. Modern MIS Strategies: Assuring Success in Systems Development	1	8
8. 1985 HAPA Annual Tax Seminar	14	224
9. Selection Interviewer's Workshop	1	8
10. Effective Public Contact	1	8
11. Introduction to dBase III	3	24
12. Introduction to Lotus 1-2-3	3	12
13. Intermediate dBase III	1	9
14. Meeting the Media	1	7
15. National Supervisors' Certification Program	1	7
16. 1985 HSCPA Tax Conference	9	72
17. Office Automation & Ergonomics	3	9
18. 1986 HAPA Annual Tax Practitioners Institute	12	96
19. Governor's Conference on Workers' Compensation	1	8
20. Fundamentals Course for Radiological Officers	1	30
21. OSHA-Hawaii Safety/Health Workshop	2	16
22. Management Skills for Secretaries and Support Staff	10	80
23. Conference of Civil Service Commissioners & Personnel Directors	2	32
24. IRS International Issues Training for State Tax Examiners	2	152
25. 1985 Summer Federal Income Tax Institute	2	16
26. Graphicsfaire West Show	1	6
27. New Hawaii Tax Laws	41	82
28. Current Hawaii Tax Legislation — Hawaii Tax Forms	99	198
TOTALS	280	2,260

NOTE: List does not include certain general interest training.

OUTLINE OF HAWAII TAX SYSTEM AS OF JULY 1, 1985

Issued by the Department of Taxation

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(1) Net Income Chapter 235—Sec. 235-1 to 235-119	Tax rates for individuals as well as estates and trusts range from 2.25% to 11.0% of taxable income. The allowable zero-bracket amounts vary by filing status. The zero-bracket amount for married filing joint return or surviving spouse with dependent child is $1,000; single or head of household is $800; and married filing separately is $500. Tax rates for corporations are 5.85% up to $25,000, and 6.435% over $25,000.	Returns due 20th day of 4th month following the close of taxable year. Withholding returns due monthly on or before the fifteenth day of the following calendar month. When the total tax liability is less than $1,000 for the calendar year, returns may be filed quarterly on or before the fifteenth day of the month after the close of each quarter. An annual employer's return and reconciliation of Hawaii income tax withheld Form HW-3 must be filed together with a duplicate copy of each employee's tax statement Form HW-2 on or before the last day of February following the close of the calendar year. Estimates of income of individuals not subject to withholding, April 20th. Estimates of corporations, September 20th.	In general, at time of filing returns. Estimates of individuals one-quarter April 20th, June 20th, September 20th, and January 20th. Corporations one-half September 20th and January 20th.
(2) Inheritance and Estate (For decedents dying before 7/1/83) Chapter 236—Sec. 236-1 to 236-44	Hawaii resident tax on shares of net estate. Nonresident tax on shares of net estate having situs in Hawaii. Exemptions: (a) Bequests to spouse $300,000, (b) parent, child, grandchild or legally adopted child $150,000; (c) bequests to others $5,000. Tax rates: (a) 2% to 7%, (b) 3% to 8%, (c) 3% to 10%, respectively. Estate Tax on corpus of estate having tax situs in Hawaii, to take advantage of the maximum credit for state death taxes under basic federal estate tax. Tax computed by subtracting inheritance tax from the maximum credit for state death taxes allowed.	The personal representative of the decedent's estate shall file a return. If there will be no administration of the estate, the return must be executed and filed by any person in actual possession of decedent's property, such as joint owner, trustees, transferees, beneficiaries, etc.	Decedent's personal representative must complete the return and pay applicable taxes due within 18 months after death.
(3) Estate and Transfer (For decedent's dying after 6/30/83) Chapter 236D—Sec. 236D-1 to 236D-18	Every resident decedent is taxed on transfer of taxable estate equal to federal credit for estate death taxes allowed by IRC Section 2011. Credit is allowed for death tax imposed by another state not qualified by reciprocal provision. For nonresident decedent, tax is based on transfer of taxable estate located in Hawaii by use of ratio. Exemption afforded resident estate equally applicable to nonresident, with certain exceptions.	Report (M-6) must be filed by person responsible for filing federal Estate Tax Return (Form 706). No report required and no tax due when federal Form 706 not required. To obtain release of property, file Request for Release (Form M-6A).	On or before the due date for filing federal Form 706, including extension of time, provided extension is submitted to Hawaii within 30 days of issuance.
(4) General Excise (Gross Income) Chapter 237—Sec. 237-1 to 237-49	This is a business privilege tax measured by gross proceeds of sales or gross income. The tax rate is ½ of 1% on wholesaling and intermediary services, blind vendors, producing, manufacturing, sugar processing and pineapple canning; all other activities (retailing business and professional services, contracting, theatre, amusement, radio, interest, commissions, rentals) are taxed at 4%, except insurance commissions received by general agents, subagents and solicitors who are taxed at .15%. The cost is $2.50, plus an additional 50¢ for certain retailing activities.	Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed $2,000 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. When the total tax liability does not exceed $1,000 for the calendar year, returns may be filed semiannually on or before the last day of the month after the close of each semiannual period. An annual summary and reconciliation return must be filed on or before the 20th day of the fourth month following the close of the taxable year.	At time of filing returns.
(5) Use Chapter 238—Sec. 238-1 to 238-16	This is an excise tax levied on tangible personal property which is imported or purchased from an unlicensed seller for use in the State. The tax is based upon the purchase price or value of the tangible personal property purchased or imported, whichever is applicable. Rates: ½ of 1%, if for resale at retail; 4%, if for use or consumption. For exceptions, see Sections 238-3 and 238-4.	Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed $1,000 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. An annual summary and reconciliation return must be filed on or before the 20th day of the fourth month following the close of the taxable year. These returns have been consolidated with the general excise (gross income) tax returns and are filed simultaneously.	At time of filing returns.
(6) Public Service Company Chapter 239—Sec. 239-1 to 239-11	Nature of Tax—(1) Public utility business in lieu of general excise and real property taxes. (a) Measurement of assessment—general rule: Gross income from public utility business of public utilities for preceding calendar year. For exception, see Sec. 239-9. (b) Rates: (i) Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers, 5.35%. (ii) Sale of its products or services to another public utility which resells such products or services, ½ of 1%. (iii) All other revenues. If ratio of net to gross income is 15% or less, 5.885%, for each 1% increase in ratio of net to gross, rate increase .2675%. (2) Motor carrier, common carrier by water and contract carrier business (other than motor carrier business) in lieu of general excise tax. (a) Measure of assessment—general rule: Gross income from motor carrier, common carrier by water and contract carrier business for preceding calendar year. For exception, see Sections 239-9 and 239-11. (b) Rate: 4% of gross income.	Returns filed on or before April 20th, based upon calendar year operations of preceding year.	First installment at time of filing return or, on or before April 20th. Other installments on 20th of June, September and December.

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(7) Banks, Building and Loan, Industrial Loan Companies and Certain Other Financial Corporations Chapter 241—Sec. 241-1 to 241-7	(1) (a) Assessment Date: January 1. (b) Nature of Tax: a franchise tax on banks, building and loan, industrial loan companies, financial corporations, small business investment companies, and development companies not subject to taxes imposed by Chapters 235 and 237. (For industrial loan companies, small business investment companies, and development companies exemption under Chapter 237 (gross income tax).) (2) Measure of Assessment: Net income for the preceding year from all sources as defined by Chapter 235 (Income Tax Law) with modifications. (3) Rate: 11.7% of taxable income.	Returns filed on or before April 20, or the 20th day of the fourth month following the close of the fiscal year.	First installment at the time of filing return, or, on or before the 20th day of the 4th month. Other installments due on the 20th day of the 2nd, 5th and 8th month thereafter.
(8) Fuel Chapter 243—Sec. 243-1 to 243-16	Distributors, as defined, are required to pay: 1¢ per gallon on aviation fuel, an initial 1¢ per gallon on diesel oil, liquefied petroleum gas for operation of an internal combustion engine and from 15¢ to 18½¢ per gallon on liquid fuels other than the foregoing; also, pay additional taxes from 15¢ to 18½¢ per gallon on diesel oil and from 14¢ to 17½¢ per gallon on liquefied petroleum gas used to operate motor vehicles upon the public highways; however, they are not required to pay these additional taxes if purchasers furnish Exemption Certificates, Form M-38. Refunds of liquid fuel used for agricultural equipment not operated upon the public highways or diesel oil and liquefied petroleum gas used for motor vehicles not operated upon the public highways may be claimed on Form M-36. Distributors are required to register and be licensed. Licenses are valid until revoked.	Returns are due monthly on or before last day of the following month.	At time of filing returns.
(9) Liquor Chapter 244D—Sec. 244D-1 to 244D-17	"Dealers" as defined in the law and certain others who sell or use liquor must pay an excise tax equal to 20% of the wholesale price. A $2.50 liquor tax permit is required and must be renewed before July 1st of each year. See Sec. 244-4 for exemption from tax.	Returns filed on or before the last day of the following calendar month.	At time of filing returns.
(10) Tobacco Chapter 245—Sec. 245-1 to 245-15	"Wholesalers" as defined in the law and certain others must pay an excise tax on sale or use of tobacco products, equal to 40% of the wholesale price. A $2.50 tobacco tax license is required and must be renewed before July 1st of each year.	Returns filed on or before the last day of the following calendar month.	At time of filing returns.
(11) Conveyance Chapter 247—Sec. 247-1 to 247-13	This tax is imposed on all documents transferring ownership or interest in real property. The rate is 5¢ per $100.00 of the actual and full consideration paid or to be paid. Minimum $1.00 tax for each taxable transaction. (Documents of certain conveyances are exempted.)	A certificate of conveyance must be filed with the document at the Bureau of Conveyance within 90 days after a taxable transaction; a claim for exemption from the conveyance tax must be filed for certain exempt conveyances.	At time of filing the certificate, but no later than 90 days after the taxable transaction.
(12) Hawaii Employment Security (Federal) Chapter 383—Sec. 383-1 to 383-174	This is a tax on wages paid, payable by employees of one or more employees with certain exemptions. The law on unemployment insurance benefit financing, amended to be effective January 1, 1979, retains the reserve ratio method of financing and establishes a two-part schedule consisting of a Basic Contribution Rate Schedule and a Fund Solvency Contribution Rate Schedule. The basic contribution rate will reflect the employer's own experience with unemployment and the fund solvency rate will reflect the trust fund's financial condition and experience of all covered employers. Effective January 1, 1985, an employer's total contribution rate will not be less than 0% or greater than 5.4%.	Returns filed on or before the last day of the month following the taxable quarter.	At time of filing returns.
(13) Insurance Premiums Chapter 431—Sec. 431-1 to 431-726	Tax on insurance companies (Underwriters) based on premiums received in Hawaii. In lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. Tax Rates: Life Insurance Domestic 1.918%, Foreign 3.197%; 4.68% on Surplus Lines; Ocean Marine .8775% of 1% on gross underwriting profit; on other Insurance Domestic 2.9647%, Foreign 4.2824%. This law is administered and the tax collected by the Insurance Commissioner who is required to report to the Director of Taxation all amounts of taxes collected under this chapter. See Section 431-318, 1978, relating to increase in premium tax rates applicable to all premiums and gross underwriting profit received during calendar year 1979 and thereafter.	Monthly or quarterly interim statements based on previous year's liability filed on or before the last day of the calendar month following the reporting period. Annual statement filed on or before March 15th with the Insurance Commissioner.	At time of filing statements.

COUNCIL ON REVENUES

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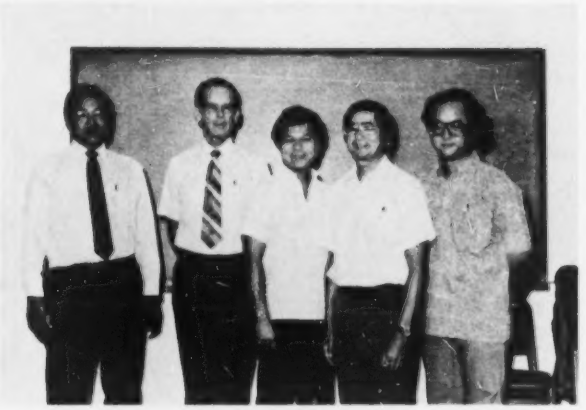
J. Ming Chew, Vice Chairman
Thomas Cabrinha
Sam Okinaga
Gregory Pai
David Ramsour
Albert Yamada



BOARDS OF REVIEW

As of June 30, 1986

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Mary H. Wong

With the aid of this high-speed sorter, the Receiving and Sorting Section of the Document Processing Branch handled over 30,000 pounds of mail during the filing season.

Providing assistance to taxpayers is the primary objective of the Taxpayer Services Branch.

To help input the large volume of data required by the CNIT system, an additional data entry unit was installed in the Data Entry Section of the Document Processing Branch.

In January, 1986, the Audit Branch began using the new CNIT system to examine tax returns.

Keelikolani Building, 830 Punchbowl Street — future headquarters of the Department of Taxation.